# HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation
www.cmhc.ca

## New Home Market

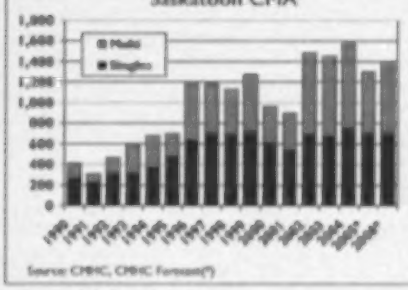
### Housing starts slow in 2005 but bouncing back in 2006 as multis return

***Single-family starts brisk throughout 2005 and 2006***

CMHC is calling for single family housing starts to maintain their current brisk pace as 2005 draws to a close and into 2006. Employment growth has been nothing short of outstanding in 2005 and, although we expect job markets to calm in 2006, employment and wage growth will continue to fuel demand for single-family housing. The forecast increase in mortgage rates will not be sufficient to stifle demand for this popular housing form.

Given current absorption rates of just over 60 units monthly, the supply of single-family homes (defined as including units under construction and units completed and unoccupied) is sufficient to last just over seven months. This is considered a balanced market which is subject to neither over or under-supply. Buyers can expect to move in to their completed unit in a reasonable time period and builders can maintain an inventory of homes with steady turnover.

**Single and Multiple Housing Starts**
Saskatoon CMA




Source: CMHC, CMHC Forecast(f)

Nearly the entire inventory consists of units under construction as builders are finding it increasingly difficult to keep vacant units for show home purposes. The absorption trend has been firmly in excess of 60 units monthly throughout 2005.

Home builders have expressed concerns regarding the price of land that is becoming available. The concern is that, in the short term, the price of land available may limit new housing choice to higher-end development. Our forecast considers that some consumers may be encouraged to consider the lower-cost (and more traditional) alternative of resale housing.

The average price per square foot for all types of single-family homes is currently $139. There is a wide range in prices from $125 per square foot in Hampton Village and Sutherland to $142 per square foot in Willowgrove, to cite some of the more popular subdivisions.

## SASKATOON

FALL 2005

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5 **Forecast Summary**

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HOME TO CANADIANS

***Average price of new housing units rises at six per cent annually***

Single-family average price will increase just over six per cent annually in 2005 and 2006. Land development costs, fees, taxes and rising materials costs will contribute heavily to the rise in average price. Furthermore an increasing proportion of sales are taking place in price ranges in excess of $200,000 thus contributing to the rise in average price. This trend is expected to continue in 2006.

***Multi family activity slows in 2005 but recovers in 2006***

Multi-family starts will fall off to 600 units in 2005 but rise to 700 starts in 2006. A number of factors have played a role in causing multi-family home building to retreat from the peak of 825 units in 2004.

In the period 2002 to 2004, Saskatoon saw more than 1,000 row condominium units built. Many of these properties were priced very affordably offering homeownership to singles, single parents and young couples who had previously been able to afford only rental accommodation. Our research indicates another market for these units was small investors looking for alternative investment vehicles to diversify their portfolios.

This affordable row condominium market appears to have now cooled off. The supply of land priced low enough to offer these units has been exhausted and newly developed land may be too high in price to deliver row condos at a price that will appeal to the target market. Furthermore, the target market of singles, single parents and young couples may now be depleted or any further demand may now be satisfied through the turnover of existing units as is shown by the increased numbers of row condominium listings that now exist. Investor buyers may now be discouraged from purchase due to the higher average vacancy rate that Saskatoon is now experiencing compared to 2002.

***Condo market returns to empty-nester and senior buyer***

Thus, in 2005 and 2006, CMHC expects the new housing market to return to luxury and semi-luxury apartment style condominium appealing to empty-nesters and seniors although there may be some row style development in mid to late 2006 as conditions conducive to affordable row housing emerge.

In terms of supply, row condominiums at various stages of construction and completed and unoccupied are at a low ebb with a supply sufficient to last under five months at current rates of absorption.

The condominium apartment market has a 24 month supply of units at various stages of construction as well as those that are completed and unoccupied. This is not an unusual state for the market at this time of year as these are the same conditions that existed at this time in both 2003 and 2004. Accordingly, we are classifying the market as balanced. The absorption trend is currently over 17 units monthly but has ranged as high as 25 units monthly in 2005. This is similar to the rate of absorption seen in 2004.

Almost 57 per cent of condominium absorptions have been row style housing form. In 2005, over 76 per cent of these absorptions fell in the $100,000 to $119,999 price range. As mentioned previously, developers have indicated they will be unable to deliver housing units in this range in future due to rising land, labour and materials costs.

About 33 per cent of absorptions have been captured by the apartment style condominium. Price ranges of $140,000 to $179,999 dominate with more than 73 per cent of this submarket. We expect the popularity of these upscale condominium units to grow as a larger proportion of the population moves into older age groups.

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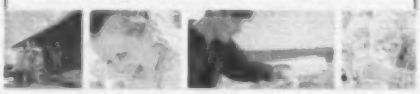


# RESALE MARKET

## Resale market remains balanced in 2005 and 2006

***Rising sales volumes in 2005 and 2006***

The Saskatoon resale market will see rising sales throughout 2005 and 2006. The escalating price for new housing is encouraging home buyers (especially first-time buyers) to return to the more traditional existing housing market. CMHC forecasts 3,200 sales in 2005 followed by an increase to 3,400 sales in 2006. Demand for resale housing has been supported by rising employment and earnings which has, in turn, led to in-migration.

New listings will see a 3.3 per cent uptick this year to 404 new listings monthly. Look for a modest increase to 410 new listings monthly in 2006. Movement of empty-nesters and seniors from their existing homes to new condominium developments will provide an important source of existing homes supporting sales activity. There is anecdotal evidence that young couples who purchased new row condominiums in the last two years are

now moving up and selling their row units. Listing of these units on the resale market would be a source of modestly priced housing for new households.

***Average resale price up 7.5 per cent***

CMHC expects average prices to increase by 7.5 per cent in 2005 and a more modest increase of 5.3 per cent to $150,000 in 2006. The increase in the average price will stem from both an increase in the actual price of the benchmark house as well as a larger proportion of sales in higher price ranges.

Looking at sales of existing residential dwellings by price range to August 2005, there has been a 51.3 per cent increase in the number of sales occurring in the $160,000 plus price range. The share of sales captured by this market has increased to 31 per cent of year-to-date sales at August 2005 compared to only about 22 per cent of existing residential sales in 2004.

The Saskatoon Real Estate Board reports a year-to-date average listing period of just over 38 days. The seasonally adjusted listing period is steady at 37 days.

CMHC considers the Saskatoon existing housing market to have the characteristics of a balanced market with equal opportunity for both buyers and sellers to bring about a sale or purchase at a mutually-acceptable price.

***Cost of home ownership among lowest on the Prairies***

Home ownership costs will increase heading toward 2006 in the face of rising mortgage rates and higher house prices. Over the last six years, low mortgage rates have helped offset rising prices in both the new and existing home markets. CMHC is forecasting modest gains in mortgage interest rates in 2006. Rising rates, combined with further average price increases for existing homes, may price some buyers out of the market, tempering ownership demand.

CMHC estimates that the income required to service the debt on an existing home purchased at the 2004 average selling price was $30,186. In 2006, based on the popular CMHC 95 per cent mortgage, the principal and interest payment on an existing home selling for the forecast average selling price, will increase from $805 (in 2004) to $941 monthly and require an annual income of just over $35,300. Despite the rising costs of buying and owning a home, overall carrying costs in Saskatoon will remain one of the lowest among cities in Western Canada.

# RENTAL MARKET

## Rental market sees improvement in average vacancy

***Average vacancy rate slips but rents fail to keep up with cost increases***

CMHC forecasts an average vacancy rate of 5.5 per cent in the October 2005 survey declining to 5.0 per cent in October 2006. Strong employment and earning gains will encourage in-migration and household growth in 2005 and 2006 leading to these lower average vacancy rates. The drive to homeownership will continue to be a concern for landlords though increased new and resale housing prices and rising mortgage rates may slow the movement of renters to homeownership to some extent.

Saskatoon has a wide variance in average vacancy throughout the city and purchasers are well advised to carefully study CMHC's annual rental market report issued in mid-December to determine the areas offering the best potential for income appreciation.

Operating and maintenance costs are increasing for all types of rental housing but the ability to obtain rent increases and the level of those rent increases will depend on the demand for rental accommodation in the specific neighbourhood. Our forecast calls for no increase in average rent in 2005 and a minimal increase of about 1.7 per cent in 2006.

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# ECONOMIC OVERVIEW

## Economic outlook optimistic

***Employment growth exceeds all forecasts in 2005 but will moderate in 2006***

Saskatoon has seen one of its strongest years of job growth on record. At August, average employment had grown by more than 8,900 employed and our forecast calls for average employment growth to reach 129,400 employed in 2005. Employment will grow by a more modest (but still healthy) 2,600 additional employed in 2006.

Full-time employment gains have been strong, rising 11 per cent on a year-to-date basis. In the 25 to 44 age group, full-time employment has grown by 10.8 per cent compared to last year. Full time employment growth is important to housing demand because it inspires consumer confidence and household formation.

In terms of number of persons employed, most of this growth has occurred in the dominant service sector more specifically in trade, health care and education. Goods sector industries such as mining and manufacturing have also contributed to employment gains.

Gains in average weekly earnings are clear evidence of Saskatoon's growing economy and potential for housing demand. At August, average weekly earnings growth on a year-to-date basis was up seven per cent. Both the Goods and Service sectors shared in these gains.

### *Construction sector shows evidence of scarcity of workers*

Construction sector employment gains have been a modest 760 additional employed by August. At the time of writing, unemployment is among the lowest of any sector suggesting a scarcity of workers. Anecdotally, construction sites have signs posted advertising for skilled trades people.

**Change in Total Average Employment**
Saskatoon CMA

Source: Statistics Canada, CMHC Forecast (*)

## Posted mortgage rates to rise moderately in 2005 and 2006

Short-term mortgage rates move in tandem with the prime rate while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets.

Mortgage rates will remain low in 2005 and rise moderately in 2006. Tame inflation, and a strong Canadian dollar vis-à-vis the U.S. dollar will restrain the size and speed of Canadian interest and mortgage rate increases in 2005 and 2006.

Short-term mortgage rates are expected to be 25-35 basis points higher in 2005 than in 2004 while longer-term rates will be lower by a similar amount in 2005 compared to the previous year. While still low by historical norms, mortgage rates are expected to rise gradually by 25- 50 basis points in 2006. One, three and five-year mortgage rates are forecast to be in the 4.50-5.75, 5.25-6.25, and 5.50-6.50 per cent ranges respectively in 2005-06. However, rising posted mortgage rates may not necessarily lead to higher mortgage rates negotiated between borrowers and lenders.


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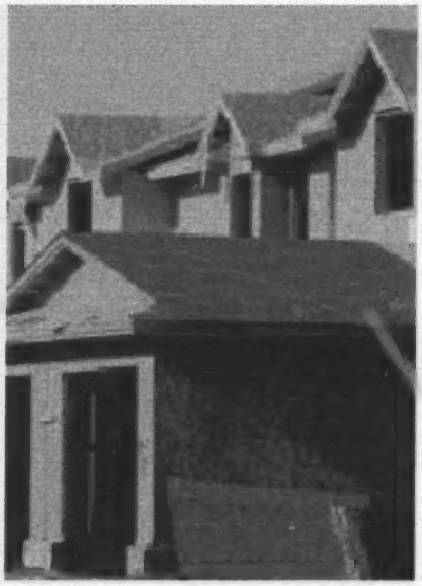

# CMHC FORECAST SUMMARY

## Saskatoon Housing Market Outlook - Fall 2005

| | 2002 | 2003 | %Chg | 2004 | %Chg | 2005* | %Chg | 2006* | %Chg |
|---|---|---|---|---|---|---|---|---|---|
| **RESALE MARKET** | | | | | | | | | |
| MLS®(1) new listings (Monthly Avg.) | 355 | 365 | 2.8% | 391 | 7.1% | 404 | 3.3% | 410 | 1.5% |
| Total MLS® Sales | 2,941 | 2,848 | -3.2% | 2,999 | 5.3% | 3,200 | 6.7% | 3,400 | 6.3% |
| Average MLS® Price | $118,999 | $125,191 | 5.2% | $132,549 | 5.9% | $142,500 | 7.5% | $150,000 | 5.3% |
| **NEW HOME MARKET** | | | | | | | | | |
| Starts | | | | | | | | | |
| Total | 1,489 | 1,455 | -2.3% | 1,578 | 8.5% | 1,300 | -17.6% | 1,400 | 7.7% |
| Single-family | 691 | 676 | -2.2% | 753 | 11.4% | 700 | -7.0% | 700 | 0.0% |
| Multiple-family | 798 | 779 | -2.4% | 825 | 5.9% | 600 | -27.3% | 700 | 16.7% |
| Average New House Price | | | | | | | | | |
| Single-family | $176,409 | $184,610 | 4.6% | $199,877 | 8.3% | $210,000 | 5.1% | $225,000 | 7.1% |
| **RENTAL MARKET** | | | | | | | | | |
| Vacancy rate (Oct) -Per cent | 3.7 | 4.5 | | 6.3 | | 5.5 | | 5.0 | |
| 2-bedroom Rent (Annual Per Cent Chg) | 1.6 | 1.6 | | 0.7 | | 0.0 | | 1.7 | |
| **ECONOMIC OVERVIEW** | | | | | | | | | |
| Mortgage rate (3 yr term) | 6.28 | 5.79 | | 5.65 | | 5.64 | | 6.00 | |
| Mortgage rate (5 yr term) | 7.02 | 6.39 | | 6.23 | | 6.05 | | 6.38 | |
| Employed | 117,800 | 120,700 | 2.5% | 122,200 | 1.2% | 129,400 | 5.9% | 132,000 | 2.0% |
| Employment growth (# jobs) | 3,700 | 2,900 | | 1,500 | | 7,200 | | 2,600 | |
| Net-migration (Census Year) | -90 | 913 | | 500 | | 800 | | 500 | |

* CMHC Forecast

Source: CMHC, Statistics Canada, Canadian Real Estate Association and the New Home Warranty of Saskatchewan

1 Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.


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